Equity
and
Growth
through
Economic
Research

UNITED STATES PRACTICES IN ESTIMATING AND PUBLICIZING TAX EVASION

African Economic Policy
Discussion Paper Number 15
May 1999

Clive Gray
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Equity and Growth through Economic Research

EAGER supports economic and social science policy analysis in Sub-Saharan Africa. Its primary goal is to increase the availability and the use of policy analysis by both public and private sector decision-makers. In addition to the goal of achieving policy reform, EAGER seeks to improve the capacity of African researchers and research organizations to contribute to policy debates in their countries. In support of this goal, EAGER sponsors collaboration among American and African researchers and research organizations.

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ABSTRACT

This paper provides background for the EAGER/PSGE study, "Enhancing Transparency in Tax Administration", currently underway in Madagascar and Tanzania. Few if any tax services in Africa publish regular and systematic estimates of the extent of noncompliance, nor do many governments take tax evaders to court or apply criminal sanctions on conviction. The study's underlying hypothesis is that action in both areas would improve compliance and reduce taxation's distortionary impact. However, before adopting such advice, African policy makers will justifiably ask whether governments of industrial countries have set an example.

Individual and corporate income taxes account for the bulk of U.S. federal government revenues, in contrast to Africa, where indirect taxation predominates. For 30 years the U.S. Internal Revenue Service (IRS) ran a Taxpayer Compliance Measurement Program (TCMP) that yielded published estimates of noncompliance based on scientific random sampling of taxpayers and nontaxpayers. The latest published data for 1992, showed a gross tax gap, before supplemental enforcement, of 17% of individual taxpayer liability and 25% of corporate taxpayer liability. Less systematic information is available (but nevertheless published) regarding evasion of excise taxes.

On the issue of criminal sanctions, in 1996 the federal government secured over 2,900 convictions for tax evasion and imprisoned nearly 2,200 offenders. Appended to the paper are examples of U.S. Attorneys' press releases on tax fraud prosecutions and convictions, as well as an extract from the IRS' publicity guidelines for criminal investigation.

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BACKGROUND TO EAGER STUDY

In every country a greater or lesser proportion of taxes that are legally due is evaded. Evasion has three components: (1) taxpayers supplying information to the tax services understate the base on which taxes are due, (2) persons or enterprises that are legally obligated to supply information to the tax services refrain from doing so, and (3) taxpayers fail to remit payments which they themselves or the tax services estimate to be due. In this paper the extent of evasion is defined as the ratio of evaded taxes to taxes legally due, while the ratio of tax collections to taxes due (= 1.0 less the evasion ratio) constitutes our measure of a given country tax system's performance.[1]

Estimating the extent of evasion is no exact science, and I know of no effort to draw a comprehensive cross-country comparison. However many indicators show evasion to be substantially greater in former centrally planned economies and in Africa than in established market economies. Moreover there is general agreement on two factors that make for a potentially high social return to measures for combating evasion in those countries:

(a) such measures constitute a cost-effective means of lowering the budget deficit, thereby reducing inflation and/or freeing up resources for public expenditure on sectors that are at present inadequately served, notably social and physical infrastructure;

(b) provided that the tax system as established by law has a less distortionary impact on economic incentives than the patchwork of taxes actually enforced, reducing evasion lessens the distortionary effect of taxation.

Countless approaches to reducing evasion by reform of tax administration have been proposed and tried in Africa. In light of the buffeting to which political predation and resulting inflation have subjected most African civil services, reformers in a number of countries have concluded that asking run-of-the-mill, underpaid bureaucrats to pursue taxpayers is a recipe for a chronic budget deficit. Accordingly, countries such as Ghana, Kenya, Tanzania and Uganda have established quasi-autonomous revenue authorities with a more generous salary structure than that of the civil service.

The present EAGER/PSGE research project on "Enhancing Transparency in Tax Administration" does not aspire to a systematic review of measures for reducing tax evasion. Apart from attempting to estimate the extent of evasion, the project's two field studies in Madagascar and Tanzania are limiting their analysis of remedies to considering the *process* of measuring evasion and disseminating the resulting estimates. Few if any African tax administrations, or ministerial departments (notably, finance ministries) concerned with tax policy, undertake systematic, regular estimation of tax evasion, and report findings publicly. In any case this does not happen in Madagascar or Tanzania.

The basic premise underlying the initial proposal and final design of the study was that an African

[1] No pretense is offered that this mechanical gauge of administrative performance measures a tax system's economic efficiency. Such measurement would involve, at the most naive level, a cost-benefit analysis to determine at what point the marginal social cost of compliance and collection offsets the marginal social benefit of public *versus* private use of funds; the ultimate in sophistication, applying optimum tax theory, would involve comparing the net social benefit of the existing tax system with an ideal system that minimized the distortionary impact of taxation, given assumed objectives with respect to equity and growth of output.

government–indeed, any government–can improve the performance of its tax service by undertaking this process. Following are some key hypotheses in this connection that were either advanced in the initial documentation or have emerged in discussions during the course of the research:

- As tax evasion becomes an object of open discussion, involving debate in parliament, campaign speeches, resolutions by stakeholder groups, etc., pressure will build on major offenders to reduce the extent of their evasion, and on political leaders, from the head of state on down, not only to reduce their own evasion (since they frequently number among the largest offenders) but also to push the tax services into increasing collections, or at least to refrain from obstructing the services as and when they pursue prominent evaders.

- The greater the level of detail in publicly distributed reports on tax evasion, the closer they will come to identifying and embarrassing the largest evaders, as well as pressuring the tax administration, both managers and their political overseers, to increase collections from them. For example, if a published report reveals that only ten companies or ten individuals declared 1997 taxable income in excess of sh.10 million, paying X million in tax, serious economic journalists and other commentators can say, "Every observant individual in this country knows at least 25 companies/individuals whose profit/income, or expenditure therefrom, obviously exceeded sh.10 million," or alternatively "The income consistent with widely observed consumption expenditure by this country's ten greatest spenders should have generated ten times as much tax at established rates".

- In many African countries, a sizable share of tax delinquency is accounted for by state-owned enterprises (SOEs), and politically-directed lack of pursuit constitutes implicit subsidization of them by government. Increasing the public light shed on this phenomenon may augment understanding of the true social cost of SOEs and add support to moves to privatize or liquidate them.

- Publicly disseminating estimated evasion rates establishes a baseline against which the tax services performance can be measured more precisely than is now the case, and permits the posting of quantitative targets for reducing evasion.

- Providing tax administrators and policy analysts with systematic estimates of tax evasion allows them to allocate collection and enforcement resources more efficiently, i.e. so as to come closer to maximizing collection of delinquent taxes for a given investment of resources.

PRACTICE IN THE UNITED STATES

Measuring the tax "gap".[2]

Relative importance of direct taxation in the U.S. In financing public expenditure the U.S. federal government relies heavily on direct taxation. Table 1 shows income taxes (individual and corporate) accounting for 85 percent of U.S. federal receipts in 1995 excluding social insurance taxes and contributions (SIT&C), and 54 percent of total receipts including them.[3]

Table 2 draws on data from the IMF's *Government Financial Statistics Yearbook - 1997* to compare the U.S. with other countries in regard to roles of different tax categories. U.S. taxes on income, profits and capital gains accounted for 54.1% of federal revenue in 1996, against an unweighted average of 31.4% for 21 other industrial countries.[4] The *GFSY* source shows only Australia and New Zealand with even higher shares of direct taxation (64.5% and 62.0% respectively).

Conversely, as regards domestic taxes on goods and services, these account for only 3.5% of U.S. federal revenue, as against an unweighted average of 30.2% for the 21 other industrial countries. Taxes on international trade are equally insignificant in the U.S. and its industrial counterparts.

The contrast is even more dramatic between the U.S. and Africa. Unweighted averages for 22 African countries, calculated from the same *GFSY* table, show direct taxes accounting for 22.9% of revenue, while domestic taxes on goods and services account for 27.1% and taxes on international trade, at 29.4%, are the single most important source of revenue in Africa.

Measuring compliance with direct taxes in the U.S. Given the importance of direct taxes in federal revenues, it is natural that the bulk of the effort devoted to measuring the U.S. tax "gap" goes into estimating evasion of income tax.

For over thirty years, beginning in 1963, the Research Division of the U.S. Internal Revenue Service (IRS) conducted a periodic exercise called the Taxpayer Compliance Measurement Program (TCMP). The core of this program consisted of auditing returns—the IRS describes the process as an "intensive line-by-line audit"—of a random sample of individual income tax payers, measuring their net

[2] This section is based on IRS reports (notably IRS 1997a) and on congressional testimony of the General Accounting Office (GAO 1997) reviewing IRS practice.

[3] Table 1 gives revenues in two variants, including and excluding SIT&C. Interest in the variant excluding social insurance payments arises because evasion of these payments raises a set of issues somewhat tangential to our central concern in studying tax compliance in Africa. In the first place, no African country has a social insurance system whose fiscal weight is comparable to that in industrial countries, and SIT&C account for a much lower proportion of receipts of African governments--averaging 7.6% for the 22-country sample featured in Table 2. Secondly, the fledgling social insurance systems that exist operate on a "Pay as you earn" (PAYE) basis, such that benefits are financed by current receipts, and not allowed to exceed them. In some industrial (and especially transition) economies where an excess of benefit payments over current receipts is a charge on other government revenue, SIT&C compliance is an issue of concern to overall fiscal policy.

[4] IMF (*1997*), pp. 4-5. The total revenue base includes social insurance taxes and contributions. U.S. data relate to 1996, those for other countries relate to single years between 1992 and 1996. Unweighted averages calculated by the author. Apart from reference to a different tax year, differences in definition cause slight discrepancies between Table 1 and *GFSY* data for the U.S.

understatement of income and overstatement of deductions, exemptions, etc., and projecting the outcome to the entire population of taxpayers. Less frequently the IRS identified and sampled a population of non-filers, computing their tax liability and then projecting it to the total population in question.

Recent IRS estimation of undeclared income, including that for 1992 covered in Table 2, made no attempt to include illegal income such as that from drug-dealing and prostitution. Estimates published in 1979 and 1983 included such income, but, according to the GAO, "since then, IRS researchers have decided that the data and methodology for reliably making this estimate are lacking".[5]

To these estimates of understatement of tax and failure to file returns the IRS added delinquent amounts arising from taxpayers' failure to pay, and the Service's inability to collect, the full amount of their acknowledged liability. A portion of delinquent amounts comprises money that employers withhold from their employees' wages, but then fail to remit to the IRS.

Apart from analyzing the "gap" with respect to the individual income tax, the IRS also estimated and reported, albeit less regularly, the gap with respect to income tax payable by large and small corporations. (The dividing line between large and small is $10 million worth of assets.) The estimation procedure with respect to small corporations was similar to that for individual income tax—a random sample of returns was audited line-by-line; the population of companies failing to file returns was sampled; and the resulting figures, plus delinquent amounts, yielded estimates of evasion.

Conversely the "gap" estimate for large corporations was based on the supplemental liability, over and above firms' self-assessment, estimated by IRS auditors in the normal course of processing those returns. The uncertainty that surrounds a complex tax code and the resulting possibility of reasonable differences of interpretation introduces an element of ambiguity in ascribing the full amount of the discrepancy in question to a tax "gap".

Table 3 gives a breakdown of IRS estimates for the 1992 individual and corporate income tax gaps, and shows the estimated gaps as percentages of total liability. In a nutshell, individuals were estimated to voluntarily declare and pay 83% of their income tax liability, while an additional 4% was subsequently recovered through IRS enforcement actions, leaving a "net tax gap" of 13%. The sources consulted for this paper do not break down collections or estimated tax liability between large and small corporations, thus preventing us from distinguishing the estimated tax evasion rates between the two sub-categories. Nor do the sources provide data on subsequent recovery of corporate income tax liabilities, thus leaving us without a basis for estimating the "net" tax gap for that category.

Indirect taxes. Given the absence of a national sales or value-added tax and the generally low level of import duties and absence of other taxes on international trade—Table 2 puts the total share of indirect taxes at 4.74%—it is obvious that noncompliance with respect to such taxes has much less impact on government revenue in the U.S. than in most other countries. This is especially true in comparing the U.S. and Africa, where Table 2 shows indirect taxes averaging 56.5% of revenue for

[5] GAO (1997), p. 3.

22 countries.

Referring to the tax year 1995 and using slightly different definitions from the *GFSY,* Table 1 shows federal excise taxes accounting for 5 percent of total federal receipts in 1995, and about 8 percent of non-SIT&C receipts. Official estimation of evasion of these taxes is less systematic than that concerning direct taxes. In its 1992 Annual Report, the IRS limits discussion of noncompliance to excise taxes on motor fuel. The report refers to a 1989 estimate by the Department of the Treasury's Office of Tax Analysis of $250 million in unpaid motor fuel excise taxes.[6] Of this amount as much as 40 percent was estimated to correspond to "criminal activity", i.e. deliberate attempts to defraud the government.

In 1997, 35 indictments resulted from a single investigation of evasion of federal and state taxes on diesel fuel in Pennsylvania, New Jersey and other neighboring states. Typically, operators of truck stops destroyed fuel purchase and sales records, rolled back meters on pumps and filed false tax returns.[7]

In the U.S. as elsewhere, smuggling, defined to include underdeclaration as well as total evasion of taxes on imports and exports, deprives the federal government of revenue. However, with Customs duties budgeted to provide only 1.5 percent of total revenue (2.3 percent of non-SIT&C revenue), the portion of the federal tax gap accounted for by smuggling is minuscule.

Transparency with respect to the tax gap in the U.S.

For purposes of the present EAGER study, the question of the degree of official transparency to which tax evasion in the U.S. is subject is of greater interest than its measurement.

Published estimates of aggregate evasion. As of 1996, the IRS' Compliance Research office employed several hundred persons, distributed among units such as an Applied Research Branch and an Economic Analysis and Modeling Group.[8] Since the TCMP's inauguration in 1963, its reports have been published by the IRS and distributed by the Service itself as well as being sold for a nominal charge by the Government Printing Office (GPO). The latest report, *Federal Tax Compliance Research - Individual Income Tax Gap Estimates for 1985, 1988, and 1992,* apart from being sold as IRS Publication 1516 (Rev. April 1996), is available free of charge on the IRS' web-site. That 60-page document lists, as references, nine reports or articles, along with one unpublished conference paper, published since 1988 under the authorship of the IRS or individual staff members. These titles are included among References at the end of this paper.

Within the General Accounting Office (GAO), an agency that evaluates U.S. Government operations on Congress' behalf, reviewing the IRS is the principal task of an office entitled, Tax Policy and Administration Issues in the GAO's General Government Division. Recently the section's director has

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[6] IRS (1993), p. 11.

[7] *Pittsburgh Post-Gazette*, October 26, 1997, "Three charged in fuel tax fraud".

[8] IRS (1997a), Table 31, shows 835 staff employed in Compliance Research/SOI (statistics of income) at end-1996. The breakdown between those two functions is not shown.

delivered testimony on TCMP and IRS findings on other compliance issues to Congressional subcommittees and to the National Commission on Restructuring the Internal Revenue Service, a body established jointly by the President and Congress.[9] These bodies of testimony are sold by the GAO Document Distribution Center and available free of charge on the web; Congressional committee testimony is distributed by the GPO.

Apart from testifying to Congressional committees, the GAO has taken several initiatives to illuminate issues of taxpayer compliance and suggest means of improvement. A 1992 report focussed on compliance by independent (self-employed) contractors, a group which the IRS labels "informal suppliers".[10] In 1995 the GAO sponsored a symposium on "Reducing the Tax Gap" whose proceedings have been publicly distributed.[11]

Recently the burden on taxpayers of complying with IRS regulations has become a political issue, with both the Clinton Administration and Republican and Democratic members of Congress rushing to expose instances of harassment of taxpayers and suggest ways of curbing these. Concern with the burden on taxpayers of the detailed TCMP audits, as well as pressure to reduce IRS costs, led the Service in late 1995 to cancel a planned 1994 TCMP, prompting the GAO to refer to "the demise of TCMP".[12] The GAO report continued: "It is not yet clear whether IRS will be able, absent TCMP data, to continue to provide a comprehensive tax gap estimate with any statistical precision at the national level."

In effect, taxpayers' burden has become part of the cost that is factored in when IRS, GAO, Congress and other stakeholders debate the question of cost-effective measures for increasing taxpayer compliance. Even greater attention is focussed on moves to increase compliance by simplifying the tax code and thus reducing compliance costs.

Publicity regarding tax enforcement. The component of transparency that constitutes the strongest incentive for tax compliance is clearly the publicity given to prosecution and conviction of individual tax evaders. In 1996 the IRS Criminal Investigation Division (CID), employing about 5,000 persons or five percent of the total IRS staff complement, referred 3,600 cases for prosecution to the Department of Justice (DoJ).[13]

Publicity regarding tax fraud is handled by the latter department, via the office of the U.S. Attorney in the district where a given case is prosecuted. That office normally issues a press release when a tax evader is indicted, once he or she is convicted, and again when the evader is sentenced. Appendix 1 below gives a sample of each type of press release, issued in the last quarter of 1997 by the U.S.

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[9] GAO (1996, 1997).

[10] GAO (1992).

[11] GAO (1995).

[12] GAO (1997) p. 5.

[13] Breakdown of employees given in IRS (1997), Table 31. Source uses functional rather than organizational categories, giving a figure of 5,060 (of whom 3,352 are listed as "Special Agents") for staff engaged in "Tax Fraud & Financial Investigation", which may differ slightly from the CID's staff complement.

Attorneys for Massachusetts and Western Pennsylvania. Appendix 2 reproduces the statement of purpose from the CID's 58-page *Publicity Guidelines*. The Division's Policy & Information Division compiles a volume of monthly news clippings whose October 1997 issue contains a hundred or so news articles from around the country, bearing on prosecution of tax evasion.

Table 4, Part A, gives data on the IRS Criminal Investigation Program, while Part B summarizes delinquent collection activity. The bottom line is that, in 1996, nearly 3,000 persons were convicted of tax fraud, of whom about 2,800 were sentenced and close to 2,200, or nearly 80%, sent to prison. Over a third (35.0%) of those imprisoned were apprehended under the IRS' Narcotics Program, where persons engaged in illegal drug activity are prosecuted for failing to declare, and pay tax on, income from that activity.

Would-be tax evaders are also put on notice by the IRS' publicity regarding collection from delinquent taxpayers whose default is not viewed as passing the threshold of criminal intent. Part B of the table shows the Service filing 750 notices of federal tax lien; serving over 3,000 notices of levy on third parties—mainly employers, through whom wages are garnished; and, in a small number of cases (ten), seizing property.

CONCLUSION

U.S. practice in measuring and publicizing evasion of direct taxes offers models that can be applied by tax administrations in Africa. We abstain from saying "easily" applied, because ease of application is partly a function of the level of counter-pressure from the oligarchs whose large-scale evasion accounts for most of the tax gap. The present EAGER study is conceived as an additional input in the process of equipping African tax authorities with knowledge about ways of enhancing transparency to increase pressure on tax evaders, while raising public awareness of tax evasion as a contributing factor to inflation and underfunding of public goods.

Because the U.S. federal model reviewed here focuses much less on evasion of indirect taxes, in view of the composition of government revenue in Africa, studies of tax compliance there have to look elsewhere for guidance on measuring and publicizing evasion of sales and excise taxes, VAT, and import duties. That will be the subject of an ensuing EAGER Discussion Paper.

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Table 1 - SOURCE DISTRIBUTION OF U.S. FEDERAL GOVERNMENT RECEIPTS, 1995

Source	$ bill	Percentages of: Subtotal excluding social insurance	Total receipts
Direct taxes – subtotal	788.5	86.1%	55.2%
Income taxes – subtotal	773.5	85.1%	54.2%
Individual	627.7	69.0%	44.0%
Corporation	145.8	16.0%	10.2%
Estate and gift taxes	15.0	1.6%	1.1%
Indirect taxes – subtotal	93.0	10.2%	6.5%
Excise	71.7	7.9%	5.0%
Customs	21.3	2.3%	1.5%
Miscellaneous receipts	27.6	3.0%	1.9%
Subtotal, receipts excluding social ins.	909.1	100.0%	63.7%
Social insurance taxes & contributions	518.3		36.3%
(On-budget)	143.6		10.1%
(Off-budget)	374.7		26.3%
TOTAL RECEIPTS	1427.4		100.0%

Source: OMB (1997), page 28.

Table 2 – TYPES OF REVENUE AS PERCENTAGES OF TOTAL REVENUE, INDUSTRIAL COUNTRIES AND AFRICA

	Taxes on Income, Profits and capitol gains						Taxes on Domestic Goods and services			Taxes on Entrepreneurial and Property Income		
	Total	Individual	Corp.	Social Sec.	Taxes on Payroll & Work Force	Taxes on Property	Total	Gen Sales Turnover or VAT	Int. Trade & Transac-tions	Other Taxes	NonTax Revenue	Income
Industrial Countries (Unweighted averages, 21 countries excluding Belgium & Germany)												
Including U.S.	32.4	23.9	7.9	25.9	2.1	2.4	29.0	18.7	1.4	1.2	10.0	6.0
Excluding U.S.	31.4	22.9	7.7	25.5	2.1	2.5	30.2	18.7	1.4	1.2	10.1	6.1
United States	54.1	42.9	11.2	33.0	0.0	1.1	3.5	0.0	1.3	0.0	7.0	3.8
Africa (Unweighted averages, 22 countries*)												
	22.9	10.7	10.4		0.7	1.1	27.1	15.2	29.4	1.8	15.5	9.0

* Due to missing data, averages for breakdown of direct taxes exclude Kenya and indirect tax figures exclude Burkina Faso.

Table 3 – Breakdown of IRS Estimates for the 1992 Individual and Corporate Income Tax Gaps

Source of the gap	Total tax liability ($ bil.)	Gross tax gap ($ bil.)	Gross tax gap % of total gap	Gross tax gap % of liability	Subsequent collection through enforcement ($ bil.)	Net tax gap Amount ($ bil.)	Net tax gap % of liability
Individual tax gap – total (a)	$550-552	$95.3	74.3%	17.3%	$15.0	$80.0	14.5%
Errors in filed returns:					$6.9		
Underreported income, of which :		$58.6	45.6%				
Business income of sole Proprietors		$29.2	22.7%				
All other income		$29.4	22.9%				
Overstated deductions		$14.4	11.2%				
Nonfilers		$13.8	10.7%				
Individual remittance gap		$8.4	6.5%				
Corporate tax gap – total	$133.4	$33.1	25.8%	24.8%			
Small corporations		$7.0	5.5%				
Large corporations		$23.7	18.5%				
Other		$0.4	0.3%				
Corporate remittance gap		$2.0	1.6%				
		$128.4	100%				

(a) Includes $0.1 billion for arithmetical errors

(b) Refers to unrelated business income of exempt organizations, and fiduciaries

Source: General Accounting Office (1997) and Internal Revenue Service (1997), p. 18.

Table 4 – I.R.S CRIMINAL INVESTIGATION AND DELIQUENT PROGRAMS – 1996

Part A (figures refer to number of cases)

Program	Initiated	Discont-inued	Referred for prosecution	Indictments	Convictions	Sentenced	Sent to prison	% to prison
Fraud	4,001	1,264	2,537	2,282	2,028	1,914	1,401	73.2%
Narcotics	1,333	293	1,032	992	887	863	755	87.5%
Total	5,334	1,557	3,605	3,274	2,915	2,777	2,156	77.6%

	Opening Inventory	Issuances	Dispositions	Closing Inventory
Part B – Delinquent Collection Activity	(figures refer to numbers of cases)			
Taxpayer delinquent accounts	5,711	5,053	4,998	5,766
Delinquent return investigations	2,066	1,792	1,684	2,174
Offers in compromise received: 134				

Enforcement activity (no. of cases)			Yield from taxpayer delinquent accounts ($ billions)			
Notices of federal tax lien filed	Notices of levy served on 3rd parties	Seizures of property	First bill	Subsequent bills & installment agreements	Additional action	Total yield
750	3,109	10	$9.4	$11.3	$9.0	$29.7

Source: Internal Revenue Service, 1996 Annual Data Book, Publication 55B, Tables 20 & 21

Appendix 1

Sample of 1997 News Releases from United States Attorneys
for Districts of Massachusetts and Western Pennsylvania

Regarding

Criminal Indictment, Conviction and Sentencing of Tax Evaders

U. S. Department of Justice

United States Attorney

District of Massachusetts

1003 J.W. McCormack Post Office & Courthouse
Boston, MA 02109

November 19, 1997

PRESS RELEASE

FORMER SUDBURY WASTE HAULER CHARGED WITH TAX OFFENSES

Boston, MA ... United States Attorney Donald K. Stern announced today that Howard S. Hatch, of Manchaug, Massachusetts, was charged in U.S. District Court with filing false Federal income tax returns for the years 1991 and 1992.

Hatch faces up to 5 years of imprisonment or a fine of $250,000, or both, for each offense. He also faces substantial civil penalties and interest on any unpaid Federal tax liability.

According to the Information, Hatch was the President and sole shareholder of a waste hauling business in Sudbury, Massachusetts, which was known as H.H. Disposal, Inc.

The U.S. Attorney alleges that Hatch diverted certain business receipts from H.H. Disposal, Inc. and willfully failed to report those business receipts on the tax returns he filed with the Internal Revenue Service.

The Information charges that Hatch filed false U.S. Individual Income Tax Returns (Forms 1040) when he willfully understated his taxable incomes by approximately $14,407, in 1991, and approximately $45,335, in 1992.

The investigation was conducted by the Internal Revenue Service's Criminal Investigation Division. The prosecution is led by Assistant U.S. Attorney John M. Hodgens, Jr., of Stern's Economic Crimes Unit.

Press Contacts: Amy Rindskopf or Joy Fallon, (617) 223-9445

NEWS RELEASE

LINDA L. KELLY
UNITED STATES ATTORNEY
WESTERN DISTRICT OF PENNSYLVANIA

Suite 224, Penn Traffic Building • 319 Washington Street • Johnstown, PA 15901 • (814) 533-4547

United States Attorney Linda L. Kelly announced today (November 3, 1997), that a resident of Blair County, Pennsylvania, entered a plea of guilty in federal court in Johnstown to charges of bank fraud and filing a false income tax return.

Entering the plea before United States District Judge D. Brooks Smith was Charles H. Gault of Tipton, Pennsylvania.

According to information presented to the Court at the time of the plea by Assistant United States Attorney John J. Valkovci, Jr., from July 11, 1991 to August 5, 1996, Gault, an employee of Tammac Corporation, on approximately 400 different occasions withdrew approximately $454,260.93 from Tammac's loss reserve account at the United States National Bank. Gault represented to the bank that the withdrawn funds were to be used for business expenses at Tammac, when in fact, he converted the funds to his personal use.

Gault also pleaded guilty to filing a false federal income tax return for the calendar year 1995 wherein he failed to report the money he had taken.

A sentencing date has not yet been set by Judge Smith. Mr. Valkovci indicated that Gault faces a maximum sentence of 33 years imprisonment, fines totaling $125,000.00, or both. The actual sentence imposed depends upon the application of the Federal Sentencing Guidelines under which the Court takes into consideration the seriousness of the particular offense as well as the prior criminal history, if any, of a particular defendant.

This case was investigated by the Internal Revenue Service, Criminal Investigation Division, the United States Secret Service and the Federal Bureau of Investigation, Johnstown Resident Agency.

U. S. Department of Justice

United States Attorney

District of Massachusetts

1003 J.W. McCormack Post Office & Courthouse
Boston, MA 02109

October 16, 1997

PRESS RELEASE

TRUCKING COMPANY PRESIDENT SENTENCED TO JAIL FOR FILING FALSE TAX RETURNS

Boston, MA ... United States Attorney Donald K. Stern announced that **NICHOLAS FUSARO, JR.** has been sentenced to eight months in custody for filing false individual tax returns for the years 1990 and 1991. U.S. District Court Judge George A. O'Toole ordered that **FUSARO** serve four of the eight months in prison and four under house arrest while wearing an electronic monitoring bracelet. Judge O'Toole also fined **FUSARO** $20,000, the maximum fine permitted under the federal sentencing guidelines. **FUSARO** will also have to pay any and all back taxes, together with interest and penalties.

FUSARO, 37, resides at 15 Dakel Drive in Assonet, Massachusetts. He was the president and 100 percent shareholder of Fusaro Transportation, Inc., which was located in Assonet, Massachusetts. Fusaro Transportation, Inc. was a subchapter S corporation engaged in the trucking business. The company hauled, among other things, materials for the textile industry from the southern part of the United States to New England. Because it was a subchapter S corporation, its net income or loss flowed through to **FUSARO'S** personal income tax returns.

According to the evidence at trial, **FUSARO** took monies which were due and owing to the company and used them for his own purposes. By doing so, he caused his personal income tax returns (Forms 1040) to underreport income he earned and caused corporate income tax returns (Forms 1120S) filed by Fusaro Transportation, Inc. to underreport the gross receipts earned by the company. The court found at sentencing that **FUSARO** underreported over $180,000 in income on his 1990 and 1991 tax returns, which resulted in a tax loss of over $50,000.

Also, according to the evidence at trial, during the fiscal years ending September 1990 and September 1991, **FUSARO** caused Fusaro Transportation, Inc. to pay him monies which he deposited into his personal bank account and then claimed were tractor expenses.

FUSARO took for his personal use monies which were intended as payment for services rendered by Fusaro Transportation, Inc. and caused those payments not to be recorded on the books and records of Fusaro Transportation, Inc. This is a procedure commonly known as skimming. In calendar year 1990, **FUSARO** fabricated tractor expenses, and took monies from Fusaro Transportation, Inc. for his own use under the guise of reimbursements for business expenses, according to the indictment and the evidence at trial.

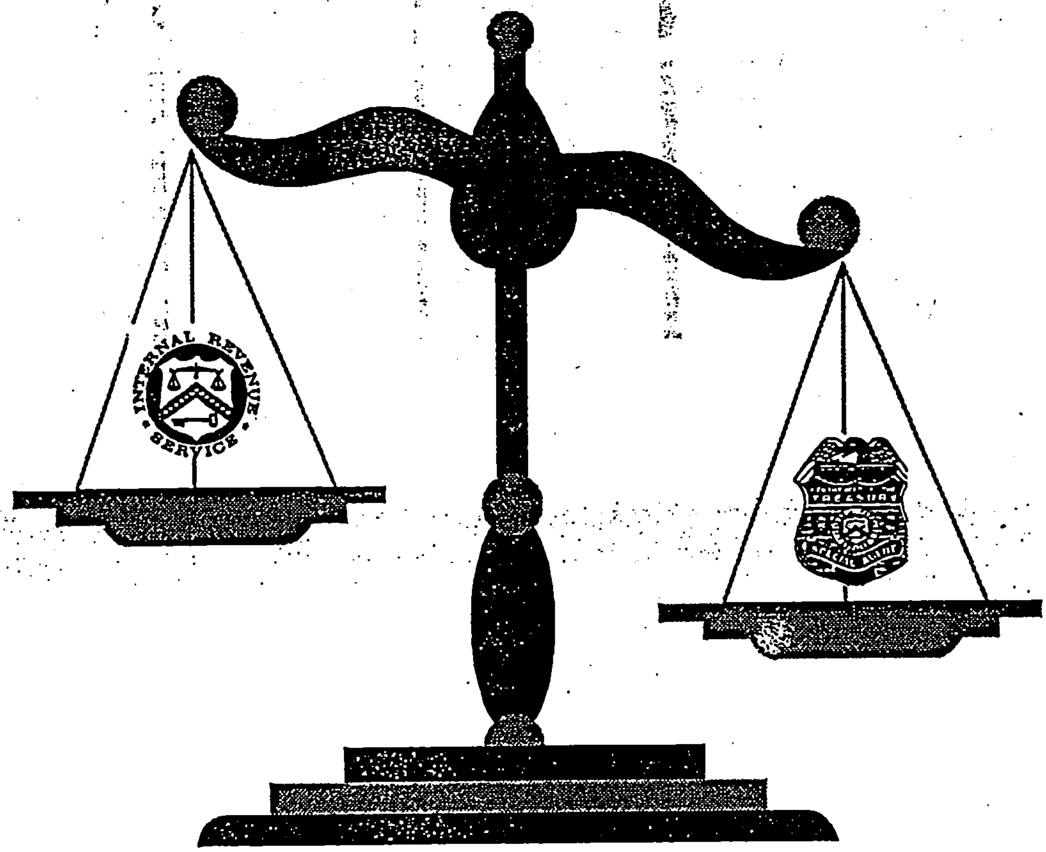
The case was investigated by the Internal Revenue Service, Criminal Investigation Division. It is being prosecuted by Assistant U.S. Attorney Stephen G. Huggard, of Stern's Economic Crimes Unit.

Press Contacts: Joy Fallon and Amy Rindskopf, (617) 223-9445

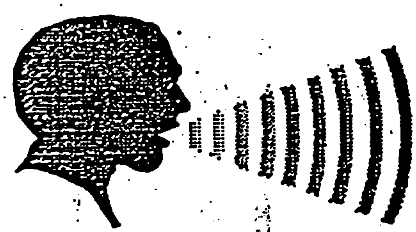
Appendix 2

Publicity Guidelines
IRS Criminal Investigation

[Extract]



"Credibility is destroyed when you speak with the media before you are prepared to address the issue at hand."



Criminal Investigation Mission

In support of the overall IRS mission, Criminal Investigation enforces the criminal statutes relative to tax administration and related financial crimes, in order to encourage and achieve, directly or indirectly, voluntary compliance with the Internal Revenue Laws.

INTRODUCTION

Why Should Criminal Investigation Activities be Publicized?

* One of the most effective methods to "encourage and achieve, directly or indirectly, voluntary compliance with the Internal Revenue Laws" is through the publicity of both notorious and "regular" individuals convicted of violating the laws and statutes within the jurisdiction of Criminal Investigation.

* Publicity of Criminal Investigation's mission and investigations results in favorable strategic organizational decisions relating to **funding, legislative actions and organizational support.**

* Publicity of Criminal Investigation's role and responsibility **positively impacts within the law enforcement community** on those individuals responsible for support and funding of law enforcement programs.

* Publicity of Criminal Investigation's activities serves as a **recruitment** initiative by casting a positive image on the job, organization and role in the law enforcement community.

* When Criminal Investigation agents work side-by-side with agents in other law enforcement agencies, publicity of Criminal Investigation's role in multi-agency investigations greatly **enhances the morale** of special agents by recognizing their contributions to combating crime.

How Will Criminal Investigation Achieve Publicity?

* Criminal Investigation will adhere to the organizational policies relating to **Internal Revenue Code Section 6103** disclosure provisions and will ensure that taxpayer information is safeguarded.

* Criminal Investigation will adhere to the **Privacy Act, 5 United States Code 552a** to ensure that taxpayer's rights are protected at all times.

* Criminal Investigation will become more proactive in their relationship with the media and in issuing press releases.

What, How and To Whom Do We Want to Communicate?

1. Who are our "public's"

* IRS Executives
* IRS co-workers
* Subordinate employees
* IRS Chief Counsel attorneys
* Other law enforcement agencies
* The US Attorney (and staff)
* Department of Justice Attorneys
* Informants
* The American Taxpayer
* The Media
* Potential employees

2. What does Criminal Investigation want to communicate?

* What we do, <u>why we do it</u> and our impact on these various "publics" as well as the American economy

3. How will Criminal Investigation accomplish this?

* press releases
* speeches
* media interviews
* articles in local news papers and magazines
* community activity
* editorial boards
* PAO media contacts

PURPOSE OF THIS GUIDE

This guide has been developed as an aid in communicating the CI mission and activities to various publics.

FREEDOM OF INFORMATION ACT (FOIA)

Nothing contained herein is intended to control access to Internal Revenue Service records which are publicly available under provisions of the Freedom of Information Act (FOIA).

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15. Gray, Clive. August 1998. *United States Practice in Estimating and Publicizing Tax Evasion.*

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